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HUD INSPECTOR GENERAL PROBES MORTGAGE COMPANIES WITH SIGNIFICANT CLAIM RATES

WASHINGTON - U.S. Department of Housing and Urban Development (HUD) Inspector General Kenneth M. Donohue and Federal Housing Administration (FHA) Commissioner David H. Stevens announced today an initiative focusing on mortgage companies with significant claim rates against the Federal Housing Administration mortgage insurance program.

HUD Office of Inspector General (OIG) subpoenas were served to the corporate offices of 15 mortgage companies across the country demanding documents and data related to failed loans which resulted in claims paid out by the FHA mortgage insurance fund.

Inspector General Donohue said, "The goal of this initiative is to determine why there is such a high rate of defaults and claims with these companies and whether there is wrongdoing involved. We aren't making any accusations at this time, we have no evidence of wrongdoing, but we will aggressively pursue indicators of fraud. We are members of the President's Financial Fraud Enforcement Task Force and today's activities reflect our commitment to seeking information on red flags that may arise from data analysis.

" This initiative was prompted, in part, by the FHA Commissioner, David Stevens, who was alarmed by the incidence of claims against the FHA insurance fund by a number of poor performing companies and reached out to the HUD OIG for assistance.

FHA Commissioner David Stevens said, "We are taking risk management extremely seriously. In addition to the policy changes we are implementing and additional changes we plan to announce later this month, we need to hold FHA lenders accountable for the high rates of defaults and claims against FHA. The Inspector General's initiative will help us determine whether there is fraud and better manage risk in the long run.

" The HUD OIG identified these direct endorsement companies from an analysis of loan data focusing on companies with a significant number of claims, a certain loan underwriting volume, a high ratio of defaults and claims compared to the national average, and claims that occurred earlier in the life of the mortgage. These are key indicators of problems at the origination or underwriting stages. The HUD OIG wants to see why these loans failed.

Some actions available to the HUD OIG are audits, investigations, and inspections and evaluations. In addition, we rely on the support of the Department of Justice (DoJ), and of State and local law enforcement. The DoJ is available to pursue both civil and criminal legal actions against wrongdoers. HUD is available to proceed with administrative sanctions such as suspensions, limited denial of participation, debarment, and civil monetary penalties.

The probe will be conducted by the HUD OIG's Audit and Investigation staff jointly. They will assess why these companies have high default rates, especially at this unprecedented time when the FHA mortgage insurance program represents such a significant percentage of mortgages currently in force in our country.

This probe is a new type of approach in which HUD OIG is focused on corporate offices rather than individual branch offices. This is a starting point for more detailed reviews if abuses are uncovered, and the HUD OIG anticipates that more probes may follow.

“The FHA market share has skyrocketed,” Inspector General Donohue further said. “Our job is oversight. We work for the American taxpayer. Each loan on this list will be thoroughly examined and we will track down the reasons why it failed. Once we determine the causes, we will look to see whether there is a need for further review or remedial action. We want to send a message to the industry that as the mortgage landscape has shifted we are watching very carefully and that we are poised to take action against bad performers.”

The following companies were served OIG subpoenas today:

First Tennessee Bank N.A., Memphis, TN

Alethes LLC, Lakeway, TX

Security Atlantic Mortgage Co., Edison, NJ

Pine State Mortgage Corporation, Atlanta, GA

Birmingham Bancorp Mortgage Corporation, West Bloomfield, MI

Alacrity Financial Services, LLC, Southlake, TX

Assurity Financial Services, LLC, Englewood, CO

D and R Mortgage Corporation, Farmington, MI

Webster Bank, Cheshire, CT

Mac-Clair Mortgage Corporation, Flint, MI

Americare Investment Group, Inc., Arlington, TX

1st Advantage Mortgage, Lombard, IL

American Sterling Bank, Independence, MO

Sterling National Mortgage Company Inc., Great Neck, NY

Dell Franklin Financial LLC, Columbia, MD

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